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PERSONNEL AND
READINESS

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FROM: Dr. David S. C. Chu, USD (PERSONNEL & READINESS)

David S. C. Chu 1 Apr 04

SUBJECT: Unified Exchange Task Force – quarterly update

- The third quarterly update on the Task Force's progress along with a brief summary of witness statements at the March 3rd House Armed Services Committee hearing is next under.

RECOMMENDATION: None. For information only.

COORDINATION: None

ATTACHMENT(S):

As stated

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3/29/04



COORDINATION

UNIFIED EXCHANGE TASK FORCE – QUARTERLY UPDATE

PDUSD(P&R)

Charles S. Abell

C2A 3-30-04

Executive Summary
Unified Exchange Task Force Quarterly Report
March 2004

This report is submitted in accordance with Principal Deputy Under Secretary of Defense (Personnel & Readiness) (PDUSD(P&R)) guidance to provide a quarterly progress report on the Unified Exchange Task Force to the DEPSECDEF. This is the third quarterly update.

The PDUSD(P&R) testified on 3 March 2004 before the House Armed Services Committee regarding the implementation planning progress. Statements from various witnesses indicated that there is support for the overall implementation planning approach, however, they remain skeptical of the results. The attachment contains a brief summary of witness statements for additional information.

The Task Force's senior governance group, composed of Service three-star leaders and Assistant Secretaries for Manpower and Reserve Affairs, and the intermediate governance group composed of current exchange commanders and the exchange chief operating officers, have met to discuss implementation planning progress and provide guidance and input into the process. These two governance groups are scheduled to meet quarterly to review progress.

Eight functional work teams and two cross-cutting teams, composed of current exchange employees serving as functional experts, were organized in January 2004. The teams are augmented with external consultant facilitators and commercial retail industry subject matter experts. The work teams have made significant progress on the near-term objectives of the Integration Plan Development. All of the work teams have developed organizational baselines which provide a snapshot of current resources, structure, and performance levels. The next step for the work teams have moved onto identification of synergies and process mapping.

The Task Force has published two white papers on consolidated exchange issues, both written by academic experts. The first is titled "Military Exchange Unification: The Strategic Case for Change." The second is titled "Military Exchange Unification: Thinking About Future Governance."

Communication outreach continues to military beneficiary associations, exchange vendors, and exchange headquarters employee groups via information and awareness briefings, published articles, and the Task Force web site (www.unifiedexchange.org). The Task Force has received coverage in beneficiary association and exchange employee newsletters, vendor publications, trade magazines, and the Military Times newspapers. Traffic to the Web site has increased steadily each month, with over 16,000 hits in February. Information will continue to be distributed to stakeholder groups as Task Force milestones are reached. The Task Force assisted in preparing the PDUSD(P&R) for testimony before the Total Force Subcommittee, House Armed Services Committee, U.S. Congress.

Currently the initiative is on schedule to meet your guidance.

Attachment
Exchange Integration Summary
Total Force Subcommittee of the House Armed Services Committee
3 March 2004

Let me be clear in my belief that these programs are worth every penny that we invest in them. These are powerful readiness generators and retention tools that reach into every military home. I will resist any effort to seek budget savings in these programs that result in the reduction of services or benefits. ...it is the responsibility of all managers to be more efficient and effective, but such improvements must not be at the expense of service members and their families.

Hon. John McHugh (R-NY), Chairman, Total Force Subcommittee, House Armed Services Committee

Integration should help reduce costs by the elimination of redundancies and streamlining of processes. We should also realize greater economies of scale as the military and retail environment continue to change. ...The exchange commanders and their chief operating officers, and the exchange experts involved on the teams are working hard to meet deadlines and deliver a plan on schedule.

Hon. Charles S. Abell, Principal Deputy Under Secretary of Defense (Personnel and Readiness)

We continue to work closely with the Unified Exchange Task Force and our sister exchange services on the exchange consolidation initiative as directed by the Deputy Secretary of Defense...I think the undertaking of the entire Unified Exchange Task Force and the direction that OSD has asked us to go is to make the benefit stronger. And to the extent that we can work together with our sister service exchanges to identify best practices, share best practices, and to map our processes and question those processes that are not the best practice then I think in the long run if we end up a consolidated exchange or end up as three separate exchanges, we will all be stronger as a result. If the goal is not to be stronger, we do not need to be wasting our time. We are going into it with the idea that we will get better through this process.

Maj. Gen. Kathryn G. Frost, Commander, Army and Air Force Exchange Service

I too believe the UETF process could work with appropriate timelines. It needs to be event driven, not time driven. Unfortunately the phase one baseline deliverables timeframe has already lapsed and work teams are being forced to move ahead without reconciliation of functional team input. We need time to analyze and normalize data. If we're forced to meet deadlines, we're going to forfeit quality. It sort of flames the notion among some of our staff that the process is a "check and block" activity -- that the exchange leaders and those working on the process are being used as cover. And, that the "to be" organizational plan already exists.

BG Michael Downs, USMC(Ret), Director, Personal and Family Readiness Division, Manpower and Reserve Affairs Department, Headquarters, U.S. Marine Corps

...my principle concern with integration is the MWR piece. There are a lot of things that we need to know about. What are the revenue generation plans of a consolidated exchange? What is their level of price savings that would be directed? How do they intend to have the individual series participate in the re-capitalization plan? Because all those things impact the dividend. I don't know what kind of dividend distribution plan will be created. But any one that I've heard suggested, the Marine Corps dividend will be decreased somewhere between 10 and 30 percent. That's devastating. And then the question I would ask is with the demanding time effort that is required by key people that have full time important duties – is this the most valuable use of their time?

BG Michael Downs, USMC(Ret) in response to Congressman Schrock's question, "What has changed since 1990, that leads DoD to believe that consolidation of military exchanges is now a good idea?"

We are participating actively and openly to help shape the future of a combined exchange system. We will act aggressively to safeguard our patrons' benefits: MWR dividends, price and selection. We will be vigilant in ensuring that NEXCOM associates have fair and equal access to employment in any combined exchange system. We are committed to the 19 operating precepts developed in conjunction with the other Exchange Commanders. As long as the process follows the operating precepts we established, I am confident that Congress will have accurate information to determine if the consolidation effort should proceed...We have received assurances from the UETF that risk mitigation would be addressed and we look forward to seeing the plan.

RADM William J. Maguire, Commander, Navy Exchange Service Command

We thank the leadership of the Unified Exchange Task Force for its efforts to keep NMFA and other associations informed about its vision, goals, and research into how to design a uniform exchange system. We believe that in the increasingly "joint" environment of today's military, the exchanges will have to move beyond their Service identities regardless of whether they are consolidated or remain as stand alone entities.

Joyce Raezer, Director, Government Relations for the National Military Family Association

AFSA appreciates the need to achieve business efficiencies. While AFSA does not oppose common sense solutions, we strongly urge this committee to allow exchange consolidation only if it is absolutely necessary, if it will not serve as a step toward degradation of the benefit, if it would not increase prices at the register, and only if it would not reduce the MWR contribution to each service.

CMSgt. James Lokovic, USAF(Ret), Deputy Executive Director and Director, Military and Government Relations for the Air Force Sergeants Association

...we also support efforts to improve efficiency and effectiveness, because our men and women in uniform, their families, retirees, reservists, and National Guard members, deserve no less from their government and the citizens of this country. It is worth repeating that the resale system is the most highly valued benefit within the Armed Forces community.

Mr. Lloyd Johnson, Chairman, Armed Forces Marketing Council

In ALA's view, consolidation of exchanges and commissaries should not occur unless there is a substantive business-based analysis that the change will not, in any way, degrade the current benefit to the patron, the MWR dividend, or negatively influence the military resale industry.

Mr. William Stanley, Jr. Chairman, American Logistics Association